

## **REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON NAMAKWA DISTRICT MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the financial statements of the Namakwa District Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the statement of comparison of budget and actual amounts and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

#### **Basis for qualified opinion**

#### **Aggregation of immaterial uncorrected misstatements**

6. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:
  - Expenditure reflected as R30 989 530 is understated by R78 387
  - Value-added tax (VAT) receivable reflected as R76 403 is overstated by R78 387
  - Revenue reflected as R6 695 477 is overstated by R86 390
  - Trade and other payables reflected as R11 336 867 is understated by R86 390

In addition, I was unable to obtain sufficient appropriate audit evidence and I was unable to confirm the following elements by alternative means.

- Receivables of R200 419 as included in the disclosed balance of R1 673 675
- Property, plant and equipment of R124 028 as included in the disclosed balance of R8 051 664

As a result, I was unable to determine whether any further adjustments to these elements were necessary.

#### **Qualified opinion**

7. In my opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Namakwa District Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

#### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Restatement of corresponding figures**

9. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 30 June 2013 in the financial statements of Namakwa District Municipality at, and for the year ended, 30 June 2012.

#### **Material underspending of the conditional grant**

10. As disclosed in note 18 to the financial statements, the municipality has materially underspent the budget on the Civil defence subsidy and the Fire equipment grant to the amounts of R691 112 and R913 410. As a consequence, the municipality has not achieved its objectives for Civil defence subsidy and the Fire equipment grant.

#### **Material impairments**

11. As disclosed in note 2 to the financial statements, material losses to the amount of R1 450 592 (2012: R2 094 235) were incurred as a result of an increase in the provision for impairment relating to the recoverability of debtors.

#### **Additional matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Material inconsistencies in other information included in the annual report**

13. I have not obtained the other information included in the annual report. Consequently I have not been able to identify whether the other information to be included in the annual report contains any material inconsistencies to the information in the financial statements.

#### **Unaudited supplementary schedules**

14. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

#### **Predetermined objectives**

15. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual report.
16. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. The material findings are as follows:

#### **Usefulness of information**

18. The *National Treasury Framework for managing programme performance information (FMPPI)* requires that performance targets be measurable. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the measurability of information presented with respect to Economic Development, Planning and Projects. This was due to limitations placed on the scope of my work due the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the programme and the institution's records not permitting the application of alternative audit procedures.

#### **Reliability of information**

19. The *National Treasury Framework for managing programme performance information (FMPPI)* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to Economic

Development, Planning and Projects. This was due to limitations placed on the scope of my work due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the programme and the institution's records not permitting the application of alternative audit procedures.

#### **Compliance with laws and regulations**

20. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Strategic planning and performance management**

21. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.
22. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).
23. The performance audit committee did not meet at least twice during the financial year, as required by Municipal planning and performance management regulation 14(3)(a).
24. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and Municipal planning and performance management regulation 14(1)(a).
25. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1)(b)(i).
26. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).
27. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal planning and performance management regulation 14(1)(c).

#### **Annual financial statements, performance and annual reports**

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of unspent conditional grants and receipts, contingent liabilities and commitments identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
29. The 2011/12 annual report was not made public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.

30. The council's oversight report on the 2011/12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.
31. The annual report for the year under review does not include particulars of any corrective action taken or to be taken in response to issues raised in the prior year audit report nor any recommendations from the audit committee, as required by MFMA 121(3)(g) and MFMA 121(3)(j).

#### **Audit committees**

32. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies and effective governance as required by section 166(2)(a) of the MFMA.
33. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
34. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.

#### **Internal audit**

35. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
  - it did not report to the audit committee on the implementation of the internal audit plan.
  - it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
36. The internal audit unit did not advise the accounting officer andor report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

#### **Procurement and contract management**

37. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) regulation 17(a) & (c).
38. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
39. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).

#### **Human resource management and compensation**

40. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of MSA section 67(d).
41. An acting CFO was appointed for a period of more than three months, in contravention of section 54A(2A) and 56(1)(c) of the MSA.

42. Finance officials at middle management did not have the higher education qualification as required by reg 8 and 9 of the Municipal Regulations on Minimum Competency Levels.

#### **Expenditure management**

43. Reasonable steps were not taken to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

#### **Conditional grants**

44. The municipality did not submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the DoRA.
45. Unspent conditional grant funds not committed to identifiable projects and not approved by the National Treasury for retention were not surrendered to National Revenue Fund, as required by section 21(1) of the DoRA.

#### **Revenue management**

46. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.

#### **Asset management**

47. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

#### **Liability management**

48. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

#### **Internal control**

49. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

50. The municipality did not continuously exercise oversight responsibility regarding financial and performance reporting and related internal controls due to the accounting officer not directing and reviewing the development and performance of the system of internal control.
51. The implementation of action plans was not adequately monitored and implemented to address internal control deficiencies. Management also did not assign responsibility and accountability for control activities due to the lack of effective mechanisms to communicate and hold individuals accountable for performance of internal control responsibilities. Consequently, corrective measures i.e. disciplinary actions were also not taken by leadership to address negative behaviour.

## **Financial and performance management**

52. The municipality did not always comply with applicable laws and regulations. In most instances, there were no formal processes in place to monitor compliance with legislation, which resulted in the number of reported non-compliance issues. There was also a lack of consequences for poor performance or where laws and regulations were not complied with.
53. The municipality did not implement proper record keeping to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting mainly due to the fact that responsible personnel did not perform control activities in a timely manner as defined by policies and procedures due to a lack of consequences.
54. The municipality did not prepare accurate and complete financial and performance reports that were supported and evidenced by reliable information because the information systems did not produce information that was timely, current, accurate, complete, accessible, protected and verifiable, and retained. Information was also not reviewed to assess its relevance in supporting the internal control components. We have also identified a lack of capacity, especially in the finance unit.

## **Governance**

55. Ongoing monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting due to the fact that the internal audit unit was not adequately resourced and functioning.
56. The audit committee could not adequately promote accountability and service delivery by evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations due to the ineffective functioning of the internal audit unit.

*Auditor-General  
Kimberley*

30 November 2013



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